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AUSTRIA

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¶1. Following is the 2007 Investment Climate Statement for Austria, keyed to reftel instructions:

2007 INVESTMENT CLIMATE STATEMENT -- AUSTRIA

Introduction

With the European Union's (EU) enlargements in May 2004 and January 2007, Austria solidified its central position in the EU. As an investment location, Austria, and Vienna in particular, faces growing competition from its Eastern neighbors, all of which are EU members. Budapest, Prague and Bratislava are competing directly with Vienna for foreign investors. Many have pointed out that direct transportation links among Austria's Eastern neighbors are in some places better than those running through Austria. Many view the current state of inadequate transport links as a missed opportunity. The new Austrian Government's program includes plans to address these infrastructure gaps. The 2005 corporate tax cut was a major step towards remaining competitive vis-Q-vis Austria's Eastern EU neighbors. The tax cut has also enticed firms to open regional headquarters in Vienna. Some 350 U.S. companies have invested in Austria and most have expanded their original investment over time.

Austria continues to offer some advantages for foreign investors, but it also presents some challenges.

Openness to Foreign Investment

Government attitude towards foreign private investment: Observers do not expect Austria's basic policies and openness towards foreign direct investment to change under the new government, a grand coalition between the Social Democratic Party (SPO) and the People's Party (OVP). The new government took office on January 11, 2007 for a four-year term. The coalition program includes a promise to promote direct investment and to further strengthen Austria's attractiveness as a

location for investment and headquarters for international firms. In general, the coalition program is relatively broad, reflecting the hand of both the SPO and the OVP. The need for compromise between the big center-left and center-right parties prevented the development of visionary reforms. The government will not reverse major structural and economic reforms implemented in recent years. However, the SPO will insist on a more "social face" for these reforms, such as softening some features of the past pension reforms. Reforms will continue, although perhaps more slowly and with a different focus, i.e., with more emphasis on social and welfare reforms and less on deregulation, liberalization and privatizations.

The new Austrian government intends to pursue initiatives to raise economic growth as a means to attain full employment by 2010. Other initiatives include the following: expanding and improving the road, rail, energy and telecom infrastructures; introducing Public-Private Partnership (PPP) models; improving education and training; improving R&D policies and raising R&D expenditures to 3% of GDP by 2010; continuing efforts to balance the budget over the economic cycle in line with the requirements of the EU's Stability and Growth Pact; implementing administrative reforms and streamlining the division of responsibilities among the various levels of government; and lowering income and corporate taxes by the end of the legislative period. By mid-2007, the new government plans to increase the petroleum tax on diesel and gasoline

and to increase truck tolls with a parallel reduction of the tax on trucks. An increase in social security contributions is also pending, ruling out any cut in non-wage costs. The government plans to introduce a basic social allowance for "those in need," expand shop opening hours and introduce more work hour flexibility, promote renewable energy, and secure energy supplies and diversification of energy resources.

The new government can build on the comprehensive structural reforms the outgoing government implemented during the 2000-2006 timeframe. These reforms helped streamline government, create a more competitive business environment, and strengthen Austria's attractiveness as a location for investment. According to many observers, in comparison to other EU member states, Austria has made a major policy shift in recent years by pursuing a balanced budget, pension reform, privatizations, strengthening financial market supervision and competition policy bodies, and implementing a corporate tax cut in 2005. The reforms addressed long-standing imbalances and have improved the Austrian economy's long-term growth potential.

Austria has been virtually strike-free since two politically motivated strikes in spring 2003 against the government's pension and railroad reforms.

Liberalization and deregulation in the energy and telecom sectors have lowered prices for businesses. However, in practice continuing barriers to entry and competition have resulted in only partial liberalization. Network tariffs for electricity, for example, have remained above average, according to the International Energy Agency.

Austria welcomes foreign direct investment that

does not have a negative impact on the environment. Austria particularly welcomes those investments that create new jobs in high technology fields, promote capital-intensive industries, and have links to R&D activities, for which special tax incentives are available. Austria remains a high-tax country, but has become increasingly attractive as a headquarters location due to the 2005 corporate tax cut from 34% to 25%. Because of tax base adjustments, experts estimate the effective corporate tax burden to be at 22%. Austria also offers a highly favorable provision for group taxation, unique in Europe, which allows offsetting profits and losses of group operations (requiring direct or indirect participation of more than 50%, but no other financial, economic or organizational integration) in Austria and abroad. This group taxation system offers interesting opportunities for U.S. investors, in particular joint-venture structures, M&A transactions, headquarter companies and simple holding companies without active business, which can also benefit from the group taxation. The corporate tax cut and group taxation aim to keep Austria competitive vis-Q-vis the new EU neighbors.

The Austrian Government assesses the business profits of non-corporations at half the income tax rate to which they would be subject based on income alone. Austria has no wealth or net worth tax, and no trade tax (Gewerbesteuer), unlike neighboring Germany.

There are no formal sectoral or geographic restrictions on foreign investment. In some regions, Austria offers special facilities and services ("cluster packages") to foreign investors. For example, these can include automotive producers or manufacturers of chips, silicon, and high-tech products. Austria offers financial and tax incentives within EU parameters to firms undertaking projects in economically depressed and underdeveloped areas on Austria's eastern and southern borders. For most of these

areas, eligibility for co-financing subsidies under EU regional and cross-border programs will decline under the EU's 2007-2013 financial framework (from Euro 2 billion to Euro 1.3 billion). The only opposition to investment in the manufacturing sector has arisen because of environmental concerns.

Potential U.S. investors need to factor Austria's strict environmental laws into their decision-making process. Austria has imposed marketing bans on some agricultural biotechnology seeds despite existing EU approvals. The European Commission's efforts to overturn these bans have been unsuccessful, although the EU's Scientific Committee has found no justification for the bans and a WTO panel ruled against the bans in 2006. For new varieties, the EU's legislation on the deliberate release of genetically modified organisms (GMOs) and on traceability and labeling requires Austria to allow GMO seeds in fields and in stores. However, strict liability regulations for research, production, and distribution of GMOs still apply. Under the Kyoto Protocol, Austria has made a commitment to cut its CO2 emissions by 13% from the 1990 level. Austria is in the process of implementing the EU's regulatory framework on greenhouse gas emissions trading, which entered into force in 2005.

In investor surveys and international rankings, Austria consistently earns high marks for political stability, personal security, quality of

life, rule of law, skill and motivation of labor, productivity and quality, health infrastructure, and mobile phone costs. However, Austria receives low marks for economic growth, tax burden, rigid labor practices and work hours, lack of risk capital financing, low innovation dynamics, restrictive immigration laws, size of the public sector, and regulatory red tape. With the 2005 corporate tax cut, the government addressed one major investment disincentive. Surveys show that Austria faces stiffer competition from Central and Eastern European (CEE) markets, as well as from the twelve new EU members, especially the four that border Austria. This competition is especially noticeable in sectors where wage costs are decisive. In the International Institute for Management Development's (IMD) 2006 World Competitiveness Scoreboard Austrian ranked thirteenth, up from the seventeenth position in ¶2005. A "Centre for European Reform," designed to evaluate how successful the EU member states have been in boosting their overall competitiveness, moved Austria up to third place in terms of implementing the EU's 2005 growth and employment targets. A.T.Kearney's 2006 Globalization Index, which measures variables such as economic integration, technological connectivity or political engagement, ranks Austria number 9 (By comparison, the U.S. was third, the UK twelfth, and Germany eighteenth).

Acquisitions, mergers, takeovers, cartels: A new Anti-Trust Act, in effect since January 1, 2006, harmonizes Austrian anti-trust regulations with EU competition law. The independent Federal Competition Authority (FCA) and the Federal Cartel Prosecutor (FCP) are responsible for administering anti-trust laws. The FCA has not been particularly pro-active, reportedly due to personnel shortages.

The Austrian Anti-Trust Act prohibits cartels, any competitive restrictions, and the misuse of a dominant market position. Companies must inform the FCA about mergers and acquisitions (M&A) concerning domestic enterprises, if combined worldwide sales exceed Euro 300 million $375 million at the current exchange rate of $1.0 per Euro 0.80), domestic sales exceed Euro 30 mllion ($37.5 million), or if two of the firms inolved each have worldwide sales exceeding Euro 50 millin ($6.3 million). Special regulations aply to M&As of media enterprises. The cartel cout is competent to decide on any M&A notification from the FCA or the FCP. For violations of anti-trust regulations, the cartel court can impose fines of up to the equivalent of 10% of a company's annual worldwide sales. An independent energy regulatory authority separately examines antitrust concerns in the energy sector, but also has to submit any cases to the cartel court.

European Community anti-trust regulations continue to apply and take precedence over national regulations in cases of trade between Austria and other EU member states.

Austria's 1999 Takeover Law applies to both friendly and hostile takeovers of corporations headquartered in Austria and listed on the Vienna Stock Exchange. It protects investors against unfair practices, since any shareholder obtaining a controlling stake in a corporation (30% or more in direct or indirect control of a company's voting shares) must offer to buy out smaller shareholders at a defined "fair market" price. The law also includes regulations for shareholders

who passively obtain a controlling stake in a company, i.e., not by buying additional shares, but because another large shareholder has reduced his/her shareholding. A 2006 amendment to the law implemented the EU's Takeover Directive prohibits defensive action to frustrate bids. The law does not implement the directive's breakthrough regulations, but allows individual companies to address these in company bylaws. The Shareholder Exclusion Act of 2006 allows a primary shareholder, with at least 90% of capital stock, to "squeeze out" minority shareholders. An independent takeover commission at the Vienna Stock Exchange oversees compliance with these laws.

Screening mechanisms: Only those foreign investments with financial assistance from the Austrian Government are subject to government overview. Screening ensures compliance with EU regulations, which limit such assistance to disadvantaged geographic areas.

Privatizations: The largest party in the new government coalition, the SPO, has announced it has no plans for additional privatizations. In past years, the government privatized many public enterprises successfully. Foreign and domestic investors received equal treatment. Despite the government's expressed preference for an Austrian core shareholding, foreign investors have been successful in obtaining shares in important Austrian industry sectors, including the telecom sector; Austria's largest bank, Bank Austria; the Austrian Tobacco Company; Voest-Alpine (VA), a major steel producer; and VA Tech, a metallurgy, power generation and infrastructure conglomerate. In 2005, the government sold its 34.7% stake in VA, in which U.S. institutional investors now hold more than 20%. In mid-2005, Siemens, which held a 16.5% share in VA Tech, made a successful public takeover bid, as the government sold its 14.7% share in VA Tech to Siemens. In 2006, the government successfully privatized 49% of its postal company through an IPO. In 2006, the U.S. investment fund Cerberus Capital Management took over more than 75% of the shares of BAWAG P.S.K. (BAWAG) bank, Austria's fourth largest banking group, from its owner, the Austrian Trade Union Federation.

Treatment of foreign investors: There is no discrimination against foreign investors, but they are required to follow a number of regulations. Although there is no requirement for participation by Austrian citizens in ownership or management, at least one manager must meet residence and other legal requirements. Non-residents must appoint a representative in Austria. Expatriates are allowed to deduct certain expenses (costs associated with moving, maintaining a double residence, education of children) from Austrian-earned income. The Austrian immigration law requires permanent legal residents to take German language and civics courses. A 2005 amendment to the Austrian immigration law exempts applicants for residence permits from the German language course requirement, if they hold a university degree.

Investment incentives: Starting in 2007, Austria will have less access to funds from various EU structural and cohesion programs, primarily regional competitiveness and employment programs. The Austrian federal, state, and local governments also provide financial incentives within EU guidelines to promote investments in Austria.

Incentives under these programs are equally available to domestic and foreign investors, and range from tax incentives to preferential loans, guarantees and grants. Most of these incentives are available only if the investment meets specified criteria (e.g., implementation of new technology, reducing unemployment, etc.). Tax

allowances for advanced employee training and R&D expenditures are also available. The government has merged various institutions providing financial incentives into a "one-stop shop" at the Austria Wirtschaftsservice. Further information, in the German language only, is available under http://www.awsg.at/portal/).

Conversion and Transfer Policies

In Austria, there are no restrictions on cross-border capital transactions, including the repatriation of profits and proceeds from the sale of an investment, for non-residents and residents. The Euro, a freely convertible currency and the only legal tender in Austria and twelve other Euro-zone member countries, shields investors from exchange rate risk in the entire Euro-zone.

Expropriation and Compensation

Expropriation of private property in Austria is rare and may proceed only on the basis of special legal authorization. The government can initiate it only when no other alternative for satisfying the public interest exists; when the action is exclusively in the public interest; and when the owner receives just compensation. The expropriation process is fully transparent and non-discriminatory towards foreign firms.

Dispute Settlement

The Austrian legal system provides an effective means for protecting property and contractual rights of nationals and foreigners. Additionally, Austria is a member of the International Center for the Settlement of Investment Disputes. The 1958 New York Convention also grants enforcement of foreign arbitration awards in Austria. There have been no recent reports of bilateral investment disputes.

Performance Requirements/Incentives

Austria is in compliance with the World Trade Organization's Trade Related Investment Measures (TRIMS) agreement. There are virtually no restrictions on foreign investment in Austria and foreign investors receive national treatment in the main. However, some requirements exist. For example, at least one manager must meet residency and other legal qualifications. Non-residents must appoint a representative in Austria.

The Austrian Government may impose performance requirements when foreign investors seek financial or other assistance from the government, although there are no performance requirements to gain access to tax incentives. There is no requirement that nationals hold shares in foreign investments

or that there be a technology transfer.

The U.S. and Austria are signatories to the 1931 Treaty of Friendship, Commerce, and Consular Rights. Austrian immigration law restricts the

overall number of visas, but a few non-immigrant business visa classifications, including intra-company transfers/rotational workers, and employees on temporary duty, are eligible for visas with no numerical limitations. Recruitment of long-term overseas specialists or those with managerial duties is under quota controls, limited to a total of between 1,000 and 1,500 per year for all non-EU countries. Austrian law defines employment-based immigrants as multinational executives/managers or similar professionals who are self-employed. The 2005 Amendment to the Austrian Immigration Law has eased the integration policy requiring immigrants to attain a minimum level of competence in the German language. Under the amendment, previous education (university degree) will automatically fulfill the integration requirement. Austria cut annual immigration quotas for 2006 from 7,500 to 7,000, largely at the expense of key workers/managers. Since the quota for key managers has proven to be insufficient to match economic growth, the new government is expected to approve soon a higher quota for 2007. Until this approval, a special provision allows for the 2006 quotas to remain in place.

Right to Private Ownership and Establishment

Foreign and domestic private enterprises are free to establish, acquire, and dispose of interests in business enterprises, with the exception of some infrastructure and utilities, and a few state monopolies, such as gambling. If the government pursues privatizations, it may gradually open up some of these industries to private investment as well. For example, in recent years, the Austrian Government implemented legal changes to allow private radio and private terrestrial TV, dismantled the postal monopoly for wire-transmitted voice telephony and infrastructure, liberalized the electricity and gas markets, and in 2006, in line with EU regulations, partially liberalized the postal monopoly and privatized 49% of its postal company. However, by law, federal and provincial governments maintain at least a 51% share in all electricity providers. In most business activities, the law permits 100% foreign ownership. Foreign direct investment is restricted only when competing with monopolies and utilities. Licensing requirements, such as those in the banking and insurance sectors, apply equally to domestic and foreign investors.

Protection of Property Rights

The Austrian legal system protects secured interests in property. The law recognizes mortgages, if recorded in the land register and if the underlying contracts are valid. For any real estate agreement to be effective, owners must register with the land registry, which requires approval of the land transfer commission or the office of the state governor. The land registry is a reliable system for recording interests in property, and any interested party has access to it.

Austria has effective laws to protect intellectual property rights, including patent and trademark laws; a law protecting industrial designs and models; and a copyright law. Legislation also protects three-dimensional semiconductor chip layout design. In line with EU requirements, Austria has a law against trade in counterfeits. In 2005 Austrian customs authorities confiscated

goods worth Euro 33 million ($41.2 million). Austria is a party to the World Intellectual Property Organization (WIPO) and several

international property conventions, including the European Patent Convention, the Patent Cooperation Treaty, the Universal Copyright Convention, and the Geneva Treaty on the International Registration of Audiovisual Works. Since both the United States and Austria are members of the "Paris Union" International Convention for the Protection of Industrial Property, American investors are entitled to the same protection under Austrian patent legislation as are Austrian nationals. Amendents in 2005 and 2006 to the Austrian Patent Actstrengthened protection of patents from innovatie enterprises, particularly through more efficien and transparent implementation procedures. Onecan file objections only after authorities have ranted the patent, and the right to receive infomation from authorities has been extended.

Autria's copyright law is in conformity with EU dirctives on intellectual property rights and grant the author the exclusive rights to publih, distribute, copy, adapt, translate, and broadcast his/her work. Infringement proceedings, however, can be time consuming and complicated. The Austrian Copyright Act also regulates copyrights of digital media (restrictions to private copies), works on the Internet, protection of computer programs, and related damage compensation.

Transparency of the Regulatory System

Austria's legal, regulatory, and accounting systems are transparent and consistent with international norms. The government usually publishes proposals for new laws and regulations in draft form for public comment.

The Austrian Government has made some progress in streamlining its complex and cumbersome permit and paperwork requirements for business licenses and permits. The government maintains that it has reduced the time necessary to obtain permits to about three months, except for large projects requiring an environmental impact assessment. The "one-stop shop" for a business permit, which the government implemented in 2002, does not include plant and building permits. These simplified procedures should accelerate permit procedures, but unpredictable and inflexible bureaucratic rules can still be a problem.

The government applies tax and labor laws uniformly, as well as health and safety standards. The government thus does not influence the allocation of investments amongst sectors. The Austrian investment climate has become more conducive for business since Austria became a member of the EU. However, inflexible shop-opening hours and working times remain a major concern for many businesses. The government plans to implement more flexible working time regulations and more liberal shop-opening hours. However, shops will remain closed on Sundays.

Efficient Capital Markets and Portfolio Investment

Austria has modern and sophisticated financial markets. All financial instruments are available. Foreign investors have access to the Austrian market without restrictions. Austria has a highly developed banking system with worldwide

correspondent banks, and representative offices and branches in the United States and other major financial centers. Large Austrian banks also have a huge network in many of the twelve new EU members and other countries in Central and Eastern Europe (CEE) and in Southeastern Europe (SEE). Austrian banking groups dominate CEE/SEE banking markets. Six out of the seven largest Austrian banks hold sizeable investments in CEE/SEE. Three of them are among the five largest banking groups in the area. Total assets of Austria's five largest banking groups (Bank Austria Creditanstalt

(BA-CA), Erste Bank, Raiffeisen Zentralbank (RZB), Bank fuer Arbeit und Wirtschaft und Oesterreichische Postsparkasse (BAWAG PSK), and Oesterreichische Volksbanken) amounted to approximately Euro 518 billion ($648 billion) in 2005, representing 71% of Austria's total bank assets.

The Vienna Stock Exchange (VSE) is connected to Xetra, Frankfurt's electronic trading system, so traders worldwide have on-screen information and direct access to all stocks listed in Vienna. In March 2005, a consortium of Austrian and Hungarian investors, led by VSE, acquired a majority share in the Budapest Stock Exchange with the goal of establishing a broader "Central European Stock Exchange" alliance, including several other stock exchanges in CEE/SEE. The VSE continues to pursue a regional alliance and has signed a cooperation agreement with the Zagreb Stock Exchange and MoUs for closer cooperation with stock exchanges in Banja Luka, Belgrade, Macedonia, Montenegro and Sarajevo. Since February 2006, the VSE also publishes a Southeast Europe Traded Index (SETX), which contains 15 blue chip stocks listed on the stock exchanges of Bucharest, Ljubljana, Sofia and Zagreb.

Austria's venture capital market is underdeveloped. The market has been flat since it peaked in 2000, but it started to recover in 2005. The volume of private equity and venture capital raised in Austria during 1996-2005 was Euro 1.5 billion ($1.8 billion), according to the Austrian Private Equity and Venture Capital Organization (AVCO). In 2005, fund raising almost doubled, compared to 2004, to Euro 216 million ($270 million).

Listed companies must publish quarterly reports. Criminal penalties for insider trading exist. The Austrian Financial Market Authority (FMA), similar to the U.S. Securities and Exchange Commission, is responsible for policing irregularities on the stock exchange and, with support from the Austrian National Bank, for supervising banks, insurance companies, securities markets, and pension funds.

The legal, regulatory, and accounting systems are transparent and consistent with international norms. Austrian regulations governing accounting provide U.S. investors with improved and internationally standardized financial information. Listed companies must prepare their consolidated financial statements according to the IAS/IFRS (International Financial Reporting Standards), and the European Commission must improve the statements. For firms with annual sales exceeding Euro 400,000 ($500,000), the new Austrian Enterprise Code, in effect since January 1, 2007 in place of the Austrian Business Code, includes detailed accounting regulations. The new Code of Corporate Governance, in effect since January 1, 2006, requires listed companies to comply or explain why they are not following it.

Political Violence

There have been no incidents of politically motivated damage to foreign businesses. Civil disturbances are extremely rare.

Corruption

The Austrian Criminal Code contains penalties for bribery, including a fine of up to Euro 500 ($625) per day for up to 360 days or up to two years imprisonment for the payer of a bribe. The recipient of a bribe faces up to five years imprisonment. Under the Criminal Code, any person who bribes a civil servant, a foreign official, or a manager of an Austrian public enterprise is subject to criminal penalties. Austria has ratified the OECD Anti-Bribery Convention, which

entered into force in July 1999. Corresponding criminal code legislation, in place since summer 1998, also prohibits tax deductibility for bribes. The OECD's 2006 report on corruption recommended that Austria strengthen the tax authorities' limited capacity to detect illicit payments and to broaden the income tax guidelines' restrictive interpretation of the foreign bribery offense. The Law on Responsibility of Associations, in force since January 1, 2006, introduced criminal responsibility for legal entities and partnerships. The law covers all criminal offences, including corruption, money laundering, and serious tax offences that are subject to the Tax Offences Act. Fines pursuant to the new law can rise to as much as 180 daily rates, with one daily rate equal to one-360th of yearly proceeds, but not less than Euro 50 ($63) and not more than Euro 10,000 ($12,500). Transparency International's 2006 Corruption Perceptions Index ranks Austria number 11 (By comparison Germany is 16th, and the U.S. 20th).

Bilateral Investment Agreements

Austria has bilateral investment agreements in force with Albania, Algeria, Argentina, Armenia, Azerbaijan, Bangladesh, Belarus, Belize, Bolivia, Bosnia-Herzegovina, Bulgaria, Cape Verde, Chile, China, Croatia, Cuba, Egypt, Estonia, Ethiopia, Georgia, Hong Kong, Hungary, India, Iran, Jordan, Kuwait, Latvia, Lebanon, Libya, Lithuania, Macedonia, Malaysia, Malta, Mexico, Moldova, Mongolia, Montenegro, Morocco, Oman, Paraguay, Philippines, Poland, Romania, Saudi Arabia, Serbia, Slovenia, South Korea, South Africa, Tunisia, Turkey, Ukraine, United Arab Emirates, Uzbekistan, Vietnam, and Yemen.

Austria has signed agreements with Cambodia, Guatemala, Namibia and Zimbabwe, but the agreements have not yet entered into effect. An agreement with North Korea is in initial stages of discussion. Until new agreements take effect, the existing agreements with the former Czechoslovakia continue to apply to the Czech Republic and Slovakia, and that with the former Soviet Union to Russia and Tajikistan. Austria and Russia are negotiating a new agreement. Under all these agreements, if parties cannot amicably settle investment disputes, a claimant submits the dispute to the International Center for Settlement of Investment Disputes or an arbitration court according to the UNCITRAL arbitration regulations.

The U.S. and Austria are parties to a bilateral double taxation treaty covering income and corporate taxes, which went into effect on February 1, 1998. Another bilateral double taxation treaty, covering estates, inheritances, gifts and generation-skipping transfers, has been in effect since 1982.

OPIC and Other Investment Insurance Programs

OPIC programs are not available for Austria. Austria is a member of the Multilateral Investment Guarantee Agency (MIGA).

Labor

Austria has a highly educated and productive labor force of approximately 4.2 million people, of which 3.6 million are employees and 550,000 are self-employed or farmers. Austria's labor market is more rigid than that of the U.S., but more flexible than markets in some other EU member states. Depending on labor demand, government policies limit the number of foreign workers to between 8-10% of the salaried workforce. In 2006, the number of guest workers, predominantly from the former Yugoslavia and Turkey, averaged 390,000. As part of the 2004 EU enlargement,

Austria adopted a 7-year transition period vis-Q-vis eight of the ten new EU members (except Cyprus and Malta) before fully allowing free movement of labor. In May 2006, the Austrian Government extended the restrictions for another three years, after which the EU Commission can approve a further extension for two years. For new EU members Bulgaria and Romania, which joined the EU on January 1, 2007, Austria adopted the same 7-year transition period. Exemptions for the recruitment of specialists or managers from all twelve new EU members apply.

Compared to other EU countries, Austria had a relatively low unemployment rate of 4.9% in 2006. The 2007 forecast is for an unemployment rate of 4.5-4.6%, assuming real economic growth of 2.6-2.7%. Forecasts call for no change in the unemployment rate in 2008, projecting economic growth of only 2.3-2.4%. Analysts expect no potential labor market shortages in the medium term. While demographic trends indicate little growth in the labor force over the next few years, other factors will help guarantee sufficient labor supply. These factors include industrial restructuring, productivity gains, increased participation of women and older employees in the workforce, gradual phase-out of early retirement, efforts to reduce civil service employment and economic growth rates of around 2.5%. Moreover, immigration, including from EU member states, will outpace the impact of low birth rates on the overall labor supply. Long-term population estimates indicate an increase in the working age population (15-60 years) to 5.27 million by 2015, up from 5.11 million in 2005. The working population should then remain stable until 2020, before decreasing slowly to about 5.02 million by ¶2025. However, measures to promote participation in the labor force should help mitigate any potential shortages.

In general, skilled labor is available in sufficient numbers. However, regional shortages of highly specialized laborers in specific sectors, such as systems administration, metalworking, healthcare, and tourism services,

may occur. In line with EU goals, the government's labor market policy aims to raise the labor market participation rate to 70% (currently 68.6%) by 2010, that of women to 60% (currently exceeded at 62.0%), and that of workers aged 55-64 to 50% (currently 31.8%). The government introduced new regulations requiring recipients of unemployment benefits to be more flexible regarding which jobs they would accept. Companies hiring workers age 50 and above are eligible for financial bonuses, but face penalties for laying off workers within this age group. The new government has plans to introduce more flexible working hours, including the possibility to increase daily work hours, but with no fixed timeline for implementation.

Austrian social insurance is compulsory and comprises health insurance, old-age pension insurance, unemployment insurance, and accident insurance. Employers and employees contribute a percentage of total monthly earnings to a compulsory social insurance fund. Although EU requirements encourage greater job flexibility, various Austrian laws closely regulate terms of employment. These include working hours, minimum vacation time (five weeks), holidays, maternity leave, statutory separation notice, protection against dismissal, and the option for parents with children under the age of seven to choose part-time work for several years. The new regulation only applies to parents working for companies with at least 20 employees. The 2002 severance pay system aims to enhance worker flexibility by providing employees the right to carry their accrued entitlements with them to subsequent jobs. A current issue, which could affect the social insurance system, and thus also social insurance contributions, is the immense shortage of nursing personnel for the fast rising number of elderly people.

Since World War II, labor-management relations have generally been harmonious in Austria, as reflected in extremely low strike figures in past decades. Two major strikes in May/June 2003 were politically motivated strikes against the government's pension reform and did not reflect management-labor disputes. No major work stoppages occurred in 2005 or 2006. About 40% of the work force belongs to a union. The Austrian Trade Union Federation is trying to recover from an internal crisis, and will therefore probably temper short-term wage and benefit demands.

Collective bargaining revolves mainly around wage adjustments and fringe benefits. While existing legal provisions stipulate a maximum workweek of 40 hours, collective agreements provide for a workweek of 38 or 38.5 hours per week for more than half of all employees. Part time employment is also high in Austria: 41% of female workers and 7% of male workers have part time jobs.

Foreign Trade Zones/Free Ports

Austria has no foreign trade zones.

Foreign Direct Investment Statistics

The inflow of new foreign direct investment (FDI) in 2005 reached Euro 7.3 billion ($9.1 billion), the highest since 2000 and much higher than the Euro 3.1 billion ($3.9 billion) that existed in ¶2004. New FDI in the first half of 2006 amounted

to Euro 1.4 billion ($1.7 billion). The value of FDI stock in Austria was Euro 53.0 billion ($66.3 billion) at the end of 2005 and about Euro 54.5 billion ($68.0 billion) by mid-2006. In 2005, U.S. firms invested about 10% of the total.

At Euro 8.1 billion ($10.1 billion), flows of Austrian direct investment abroad in 2005 hit an all-time high, following the impressive level of Euro 6.7 billion ($8.3 billion) in 2004. In the first half of 2006, FDI abroad was Euro 1.2 billion ($1.5 billion). This raised the value of Austrian direct investment stock abroad to Euro 57.8 billion ($72.3 billion) at the end of 2005 and to Euro 59.0 billion ($73.7 billion) by mid-¶2006.

Note: Figures converted at the 2006 annual average exchange rate of $1.00 for Euro 0.80.
Source: Austrian National Bank.

Austria's International Investment Position (EUR billion)

Year	2004	2005 (1)	2006 (2)
FDI in Austria	45.8	53.0	54.5
Austrian FDI Abroad	49.8	57.8	59.0

Footnotes:
(1) preliminary figures;
(2) first half year, preliminary figures.

FDI in Austria - Source Country Breakdown 2004
(share of total in percent)

U.S.	11.3
Germany	37.8
U.K.	11.1
Switzerland/Liechtenstein	7.5
Netherlands	7.3
France	3.2
Denmark	2.4
Italy	2.3
Japan	2.3
All other countries	14.8

FDI in Austria - Industry Breakdown 2004 (Euro billion)

Mining and energy	508
Metals, machinery	1,660
Vehicles	426
Electrical engineering, electronics	2,143
Petroleum, chemicals	3,661
Paper, wood	1,244
Building and allied trades	580
Trade	9,019
Transport, communication	685
Banking, insurance, finance	5,696
Real estate, business related services	19,399
Other industries	744
Total	45,765

Austrian FDI Abroad - Destination Country Breakdown 2004
(share of total in percent)

U.S.	3.9
Germany	15.0
Czech Republic	8.4

Hungary	7.6
Switzerland/Liechtenstein	7.3
Netherlands	6.4
U.K.	4.8
Poland	4.6
Slovakia	3.7
Romania	3.2
Croatia	2.8
Italy	2.0
Slovenia	1.7
All other countries	28.6

Austrian FDI Abroad - Industry Breakdown 2004
(Euro billion)

Mining and energy	2,312
Metals, machinery	1,543
Electrical engineering, electronics	1,100
Petroleum, chemicals	3,816
Paper, wood	1,201
Food, drink, tobacco	580
Building and allied trades	2,163
Trade	6,597
Transport, communication	602
Banking, insurance, finance	15,737
Real estate, business related services	13,102
Other industries	1,012
Total	49,765

List of Major Foreign Investors:

More than 350 U.S. firms hold investments in Austria, which range from simple sales offices to major production facilities. The following is a short list of U.S. firms holding major investments in Austria.

American Express Bank Ltd.
Baxter International Inc.
Capital Research and Management Company
Cerberus Capital Management
Cisco Systems, Inc.
Citibank Overseas Investment Corp.
The Coca-Cola Company
CSC Computer Sciences Corporation
Deloitte & Touche LLP
Electronic Data Systems Corp.
Exxon Corporation
General Electric Capital Corporation
General Electric Company
General Motors Corp.
Harman International Industries Inc.
Hewlett-Packard Company
Honeywell Inc.

IBM World Trade Corp.
ITT Fluid Technology Corp.
Johnson & Johnson Int.
Johnson Controls Inc.
Kraft Foods International, Inc.
Lear Corporation
Lem Dyn Amp
McDonald's Corporation
Marriott International, Inc.
Mars Inc.
MeadWestvaco Corp.
Merck & Co., Inc.
Modine USA
Otis Elevator Co.
Pioneer Hi-Bred International Inc.
PricewaterhouseCoopers LLP
PQ International Inc.
Quintiles Transnational Corp.
Schindler Elevator Corp.
Starwood Hotels and Resorts Worldwide, Inc.

Toys"R"Us, Inc.
United Global Com, Inc.
Unysis Corporation
Verizon Information Services Inc.
Western Union
Worthington Cylinder Corp.
York International
Xerox Corporation

The following is a brief list of firms headquartered in countries other than the U.S., holding major investments in Austria.

Alcatel Holding, Netherlands
Allianz AG, Germany
Amer, Finland
Asea Brown Boveri, Switzerland
Assicurazioni Generali, Italy
Aventis, Germany
Axel Springer Verlag, Germany
BASF, Germany
Bayer AG, Germany
Bayerische Motorenwerke (BMW), Germany
Bombardier, Canada
Bosch Robert AG, Germany
Borealis, Denmark
BP Amoco, UK
DaimlerChrysler, Germany
Detergenta Investment, Germany
Deutsche Telekom, Germany
DM Drogerie Markt, Germany
Electricite de France, France
Electrolux, Sweden
Epcos AG, Germany
Ericsson, Sweden
Flextronics International, Singapore
Gallaher, U.K.
Heineken, Netherlands
H&M, Netherlands
Infineon, Netherlands
Kone Corp., Finland
Koramic, Belgium
Liebherr, Switzerland
Magna, Canada
MAN, Germany
Metro, Germany
Mondi Europe, Luxembourg and UK
Nestle S.A., Switzerland
NKT Cables, Denmark
Novartis, Switzerland
Nycomed Holding, Denmark
Philips, Netherlands
Plus Warenhandel, Germany
REWE, Germany
RWE, Germany
Sappi Ltd, South Africa
Schlecker, Germany
Shell Petroleum N.V., Netherlands
Siemens, Germany
Smurfit Group, Ireland
Solvay et Cie, Belgium
Sony, Japan
Sueddeutscher Verlag, Germany
Svenska Cellulosa Ab (SCA), Sweden
UniCredit Group, Italy
Unilever N.V., Netherlands

Voith, Germany
Westdeutsche Allgemeine Zeitung (WAZ), Germany

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